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11 October 1966

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INTELLIGENCE MEMORANDUM

AUSTRALIA TODAY

DIRECTORATE OF INTELLIGENCE

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
11 October 1966

INTELLIGENCE MEMORANDUM

Australia Today

Summary

Like neighboring New Zealand, Australia's political structure is similar to the British parliamentary system and its standard of living is among the highest in the world. The economy, which is recovering from a recent slowdown, is fundamentally sound despite modest unemployment increases over the past several months and a decline in home construction and automobile sales. Foreign policy traditionally has been determined by London, but Australia is showing signs of a growing maturity and is beginning to assert itself both as a regional and international force. Recent developments in Southeast Asia and Britain's decision to reduce its military presence east of Suez have caused national leaders to focus greater attention on defense needs, to advocate collective security, and to rely more heavily on the protective influence of the United States. Nonetheless, Australia continues to conduct a very limited trade in nonstrategic goods with Communist nations while opposing Communist expansion.

Note: This is one of a series of memoranda produced by CIA on those countries to be visited by President Johnson. It was prepared by the Office of Current Intelligence and coordinated with the Office of National Estimates and the Office of Research and Reports.

The Political System

1. Australia is an independent dominion within the Commonwealth, and its governmental structure is patterned after the British parliamentary system. The governor-general, as the Queen's representative, possesses broad theoretical powers as chief of state, but the center of power lies in a bicameral parliament. Executive authority is vested in a prime minister and a cabinet, responsible to parliament. Australia has fundamentally a two-party system: the ruling coalition of the Liberal Party, led by Prime Minister Harold Holt, and the Country Party, whose chief spokesman is Deputy Prime Minister and Minister of Commerce and Industry John McEwen; and the opposition Labour Party (LP).

National Elections

2. National elections are scheduled to be held next month. The ruling coalition led by Prime Minister Holt since Sir Robert Menzies retired last January, will be pitted against the Labour Party (LP). The elderly Arthur Calwell, target of a recent unsuccessful assassination attempt, heads the opposition LP. Calwell was able to overcome a challenge to his leadership last spring by Gough Whitlam, but the intraparty struggle may well be resumed in the postelection period. The government coalition now occupies half of the 60 Senate seats, the LP 27, and the Democratic Labour Party two. The other seat is occupied by an Independent. The government coalition has a decisive majority in the House, occupying 72 of its 124 seats.

3. The two central election issues are the government's economic policies and Australia's military commitment in Vietnam. In early September, Calwell promised that the LP, if elected, would hold a referendum to win popular endorsement for the regulation of prices and interest rates, and would introduce legislation to restore quarterly cost-of-living adjustments to the basic wage. He seems to have chosen a poor platform, since the present government was voted into office

17 years ago precisely because it insisted upon abolishing controls like those Calwell would now reimpose.

4. Vietnam has emerged as the central issue in the campaign. Almost immediately after Holt became prime minister in January, he announced his intention to increase the size of the Australian task force in Vietnam to 4,500 men, approximately 30 percent of whom would be conscripts brought into the services under the conscription law enacted in 1964. This increase is now in process. Calwell has seized vigorously on the conscript issue to attack the government's Vietnam policies, and is hoping to exploit it fully in a series of major policy speeches.

5. Although the elections are only about six weeks away, the campaign has not produced much popular enthusiasm, and the public's position on Vietnam and conscription remains somewhat uncertain. Recent public opinion surveys have shown popular opinion on Vietnam to be swinging behind the government, although polls last spring indicated that possibly as much as 57 percent of the electorate opposed the use of conscripts in Vietnam. This may be attributed mainly to the improved military and political situation in Vietnam, the surprisingly heavy participation in the Vietnam election, and more active "salesmanship" by the Holt forces. If these trends persist and the Australians do not experience heavy casualties before the election, the government coalition probably will be returned to another three-year term.

Economic and Financial Affairs

6. The Australian Government energetically promotes a policy of national development and industrial growth. The recent enactment of a more liberal immigration policy and the promotional efforts of the government to lure immigrants to Australia are closely associated with these objectives. General economic activity remains at a high level, but the annual growth rate has slowed somewhat from a level of about six percent which prevailed from fiscal years 1963 through 1965. A decline in automobile sales and in home construction, as well as a modest increase in unemployment, are causing some concern. The economy is basically sound, however, and no really serious difficulties are anticipated in the foreseeable future.

7. The role of foreign investment in Australia is under discussion and has led to some division within the ranks of the government coalition. Deputy Prime Minister McEwen has emerged as the spokesman for those who would adopt a more nationalistic line toward overseas investment. On the other hand, Prime Minister Holt encourages the flow of foreign capital to Australia, and it is unlikely that this policy will change over the next few years.

8. Australian economic initiatives in recent months have encountered some spirited opposition from abroad. Controversial initiatives include an expanded "free trade agreement" with neighboring New Zealand and the extension of selective tariff concessions to the lesser developed countries.

9. Australia has also been increasing its modest external aid programs, although the principal recipient continues to be the Territory of Papua and New Guinea, for which Australia has an administrative responsibility. Aid appropriations for 1965-66 amounted to about \$114 million, 0.6 percent of its national income. Canberra has membership in the Development Assistance Committee of the Organization for Economic Cooperation and Development, the Colombo Plan, and the newly created Asian Development Bank.

10. Australia conducts a limited trade in nonstrategic goods, mainly wheat, with the Communist countries. However, the country's total trade with the Soviet Union and mainland China for FY 1966 amounted to only about \$200 million, a decline of about \$66 million from the preceding year.

Defense Policies

11. Like neighboring New Zealand, Australia traditionally has relied on its Commonwealth ties for security, and has not been compelled to develop a sophisticated defense system of its own. However, developments since World War II, particularly in South and Southeast Asia, have led to a

reassessment and subsequent recasting of Australian policies and to membership in ANZUS and SEATO. The Commonwealth association persists, but the United States, rather than Great Britain, is regarded as Australia's "shield" and the vital key to the collective security of South and Southeast Asia.

12. Australia embraces and identifies itself with US policies in Southeast Asia, and has committed troops to the defense of Malaysia as well as South Vietnam. The government can be expected to assume expanded regional responsibilities in the future, particularly as Britain reduces its military commitments east of Suez. Consequently, defense expenditures, now amounting to 12.4 percent of the budget and 3.5 percent of the GNP, will be increased considerably. In fact, the defense appropriation for FY 1966 amounted to some \$966 million, an increase of 27 percent over the previous year. The defense establishment presently totals nearly 60,000 men, about half of whom are in the army.

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